Market Volatility:
Focus on what you can control

Many factors can create market volatility, including news headlines. Even social media messaging by influential people can create market swings. You can't control volatility, but you can prepare for it by creating a plan and taking steps that are within your control – like completing a risk tolerance questionnaire to be sure your investments align with your goals, values, timelines, and comfort level with risk.

Your EAP can set you up with a free, confidential 30-minute telephone consultation with a financial expert (who is not trying to sell you anything!). If you have a question or concern about your finances, your employer wants to support you as they know how important financial stability are to all of us.

What is a market correction?

A "correction" is generally described as a market decline of 10% or greater. Most economists define a "bear market" as a market decline of 20% or more. If market prices begin to slide, sometimes a correction turns into a bear market, which can last weeks, months, or even years as we consider historical returns.

What History Has Taught Us About Market Volatility

Although they can feel scary, market corrections are normal. If you consider the long-term upward trend of the stock market over decades versus other types of investments, you'll see that there is often a recovery within a few years of a severe market correction. No one knows exactly how long it will take or if values will return to pre-correction levels. Even the best analysts, who try to predict the peak or the bottom of the market, never know whether their predictions were correct until time has passed. Some market corrections are more significant than others, but the important concept to remember is that financial markets go through cycles.

Assess Your Risks – Leverage Resources & Rebalance If It Makes Sense

Complete a risk tolerance questionnaire, understand your individual financial stress triggers, and make non-emotional decisions or adjustments if necessary. Many employers have a risk tolerance resource available to you through their employer-sponsored retirement plan, so check with your employer or log in to your retirement plan account to see what's available. Rebalancing might make sense if it supports your overall goals. When you have a plan in place, it can be easier to avoid the urge to panic about daily market fluctuations and stay focused on your long-term goals.

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Employee Assistance of the Pacific, LLC
(808) 597-8222
Toll-Free (877) 597-8222
www.EAPacific.com

Employee Assistance of the Pacific
1600 Kapiolani Blvd., Suite 1610
Honolulu, HI 96814

Employee Assistance of the Pacific, LLC
Physician Assistance Program
(808) 597-8229
Toll-Free (877) 597-8222
www.HawaiiPAP.com

Market Volatility: Focus on what you can control *(continued)*

Build & Sustain Emergency Savings

Having emergency savings can provide financial peace of mind. Create a target for emergency savings of at least 3-6 months' worth of living expenses. You may have to start small and build slowly, but once you get to your target number, try to sustain the balance, even if you have to use the funds for an unexpected cost like replacing an appliance or a car repair. Building your emergency savings can help you have financial confidence even when the financial markets are up one day and down the next.

Dollar-Cost Averaging

Dollar-cost averaging is consistently contributing to your investments regardless of market prices. This means that you're buying when prices are low and when prices are high rather than trying to buy on "the right day." An example of dollar-cost averaging is a consistent contribution to a 401(k) or retirement plan, which means that you would buy when share prices are low and when they're at a higher price. Over time, the share price will likely average out. This "set it and forget it" approach generally allows you to have less stress than trying to pick the right time to get in or out of the market.

Tax Planning in Buy/Sell Decisions

When the market is down, it might make sense to sell an asset at a lower price than when you purchased it. This tactic can make sense if it provides a loss that results in a reduction in your tax liability. Working with a tax expert and an investment advisor can help you determine whether this might benefit you.

Roth Conversion Pros & Cons, & Tax Planning

If you have a pre-tax account and your account value is down, it might make sense to complete a Roth conversion to take advantage of paying taxes on a lower balance versus when the market is high. Talk with a tax expert about Roth conversions to understand the pros and cons. Consider your current tax rates, estimate your future tax rates and consider whether completing a Roth conversion would bump you into a higher tax bracket. Working with a tax expert can help you determine whether a partial or full conversion may make sense.

Talk to a Money Coach Today

Now more than ever, it's important to prioritize financial well-being and understand how to protect your finances during market swings. For unbiased education, you can call to schedule a free 30-minute financial coaching session today. Although they do not provide specific investment advice, they can help you understand how to create an action plan, reduce financial stress, and get additional resources.

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